BANKING.

Notes on the origin and development of Banking, and lessons to be drawn from its history.

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The utmost care has been taken to verify every fact quoted in this book. Overleaf will be found a list of the eminent authorities whose painstaking labour and research have made it possible for me to obtain data to prove that the subject of banking is one of supreme interest and paramount importance. Every statement of fact herein is founded on one or more of those authorities, and statements not seeming to be well authenticated have been omitted.

However great an enthusiast the reader may consider me to be, he cannot but admit that I have, with the help of these authorities, conclusively demonstrated the importance and the vital interest of banking, as a business, as a commercial system, and as the mainspring of civilization.

Tower Royal,

Cannon Street, E.C.

October 1901.

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CHAPTER I.

THE ORIGIN OF BANKING.

It may safely be accepted as an established proposition that human nature, in all essential points, is the same to-day as it was five thousand years ago. This being admittedly the case, it can hardly be a matter for surprise that the saying "there is nothing new under the sun" should have arisen. Human nature had as many cravings and wants in those days as it has now; and these desires had to be ministered to in one way or another, more or less primitively, according to the civilization of the age. In course of time, some of the ancient usages became obsolete; others exist still. For human nature carries with it in its progress through the ages, only those of the principal agents which show themselves to be essential for the promotion of mutual intercourse.

One of the chief factors in the inter-communication of the people undoubtedly was, and—following the above-

mentioned invariable rule, namely, the survival of the fittest—still is, a system of banking.

There were in the olden times three distinct schemes of what we to-day include under the term—gradually growing more and more comprehensive—of "banking." Greece, Rome, and Jerusalem each had its own idea of how to carry on this kind of business, and it is a fact which will be found well worthy of consideration, that a combination of these three systems would have embraced nearly all the elements of the modern bank.

The three principal divisions of banking may be classed as, (1) receiving deposits at interest, and lending the funds thus accumulated at greater interest, (2) giving facilities for paying by cheque or order, and (3) exchanging money payable in foreign countries. It was in Greece that the first of these was originated (or, rather, developed), Rome contributing the second, and Jerusalem the third.

The student of the commercial history of Greece finds the general heaviness of the subject relieved by the oddities which are unexpectedly revealed to him. That is to say, we, in our superior modern knowledge, would have no hesitation in classing such items among things comical, but in the age that begot them they were undoubtedly looked upon as most serious propositions. Xenophon's great banking scheme is a case in point. This project was suggested by the peculiar state of the

money market in Greece at the time when the man whose brilliant brain evolved it was in his prime. Private bankers in Athens allowed interest at the rate of 12 per cent. per annum on deposits, and lent the money thus received at exorbitant rates, sometimes as high as 25 per cent. per day. Assuming that money was actually intrinsically worth the rate that was then current, Xenophon concluded that if all the Athenians would subscribe together to form a huge bank, they would soon be able to build new wharves, halls, exchanges, and the like, besides enabling every citizen of the country to live in ease and plenty. Doubtless this plan seemed to him to be quite feasible; but following up this idea, he might have gone much further, and conclusively proved that even if money were intrinsically worth only three per cent. interest per annum, and could be relied upon to increase at that rate, the smallest coin he then had would increase in the future until, in the present year of grace, it would have amounted to more gold than the bulk of the solid globe on which we live. Whether Xenophon was considered a dreamer, or whether he was, as a prophet, without honor amongst his own people and in his own time, his plan, whatever the reason may have been, was not carried out. It may, perhaps, prove some slight consolation to other unsuccessful schemers to reflect that the sage old Greek himself was one of these. He suggested a plan as wild as any that are being pushed forward to-day, failed to get

the public to take it up, and yet, over two thousand years afterwards, his name shines with an untarnished lustre.

An analogy may be traced between the joint-stock and private bankers of to-day and the primitive banking of ancient Greece, which partly consisted in hundreds of people taking their precious metals and jewels to the temples for safe keeping on the one hand, and on the other hand in the profit-making transactions of private bankers. Before Homer (in whose time the riches of Delphi seem to have been proverbial) the temple of Delphi became a great depository of wealth. When the Dorians drove the Greeks to Ionia, the temple of Apollo at Didzmi, near Miletus, became a public depository or bank. These temples were, in a sense, public property, and their banking was quite different from the risky transactions effected by the private bankers or money-lenders of those days. Here the analogy fails, for nowadays the business of the joint-stock banker is little different from that of the private banker. In Greece these private bankers took large risks and charged enormous rates of interest. To finance a merchant meant that when he sold his cargo at a hundred per cent. profit the banker would receive 50 per cent. for the use of the money which the cargo had cost. As this operation would probably take about six months, and as the banker paid the public 12 per cent. per annum for deposits, it was an ideal state of affairs for the banker—

when the voyage was successful. What happened however, when the merchant robbed the banker, or the ship went down, or the goods proved unsaleable, may be easily imagined, and at such times the banker's state of mind was not one of entire bliss.

In Rome it was thought wrong to charge interest on a loan. The wealthy did not need loans, and the poor were too poor to pay interest. A distinction may be drawn between lending a needy fellow-creature money to save him from starvation, or other calamity, and lending money to be used in trade or speculation. The ethical objection to interest or usury, no matter at what rate per cent., applies exclusively to the former. In lending money to be used in trade or speculation, the charge for interest cannot be influenced by ethical considerations, it being invariably fixed by the risk and trouble undertaken, and the law of supply and demand.

In Roman society there was such a gulf existing between the rich and the poor that borrowing for the purposes of trade was rare, while the desire to borrow for the purpose of staving off poverty was, among the poor, all but universal. Under these circumstances it is natural that charging interest should have been considered wrong, and that the philanthropic Augustus Cæsar should have instituted a fund for the purpose of lending money to needy Roman citizens without interest.

Bankers, as borrowers and lenders, could not flourish under such conditions, but what is now a division of banking gradually came to be evolved, namely, the use of "cheques" or orders for money by written requests to a debtor to pay some other person the amount owed. This was found to afford so much convenience that money was often left in the hands of a patrician debtor until it was required for the purpose of paying a third party who received an order for it. That third party would often refrain from cashing it until he wanted the money for the purpose of paying yet another, and so on, until orders to transfer sums of money from one name into another became very usual.

These orders were written on waxen tablets with a "stylus," and great care was observed in handling and preserving them.

We now come to that department of banking which consists in buying "Exchange" or other money payable in a foreign place, and let us here endeavour to carry our minds back to the wonderful Temple at Jerusalem. In the time of Solomon the Children of Israel morally ruled the world. From every country came bands of pilgrims to do homage to the great monarch and to bring gifts to his temple. The priests would only receive certain specified monies, so that, without some sort of money-changing system, many who had brought their gifts from afar would have been unable to worship. In the outer

temple therefore, the money-changers established themselves. They gave coin of the realm in exchange for foreign money, and when the pilgrims were ready to go home, loaded, perhaps, with presents from the Court, these money-changers gave them back money of their own country in exchange for the money presents given to them in Jerusalem. Large profits were often charged to ignorant strangers and by the time of Christ the system had become so abused that, we are told, He made a whip of cords and drove out the money-changers bodily as thieves.

CHAPTER II.

EARLY BANKING INFLUENCES.

BANKING seems to have been intermingled with the religious and political prejudices of the world to a greater extent than all other forms of business put together. In studying history, with which, from the earliest times, it has been almost inseparably connected, we find it the pernicious cause of much of the religious and race persecution of Europe, and of wars causing wide-spread misery at home and abroad. We see how intimately the Crusades, the Continental Wars, and the American Revolution were connected with banking, and how even the growth of moral teaching has been at times retarded or stimulated by this force. We find, in fact, that banking is the pendulum of civilization, a pendulum which may, perhaps, occasionally have the effect of lending to the clock which it should regulate certain erratic tendencies, but still one without which the clock could not be made to go at all.

For the purpose of illustrating the above statement it is here proposed to give the reader a short description

of some of the events in the history of the world which have been directly due to—or, at least, dependent on—one or other of the various branches of banking. An apt introduction to this section is offered by France, in which country the Jews, a thousand years ago, were regarded with an even greater amount of animosity than is the case to-day; and they found it very necessary to have their possessions in such a form that an enraged mob could not injure or annex their treasures. They therefore continued their money-changing habits and added the business of lending at interest, a debt being then considered one of the most indestructible and secure of all assets because it could not be seized by enemies. In spite of the persecutions to which they were subjected, the Jews became so wealthy that in 1182 King Philip Augustus issued a decree of banishment against them on the ground that they monopolised the people's wealth.

A hundred years later they had returned and begun again to flourish under the reign of Philip the Fair. This monarch first protected them for the sake of the taxes he could extract from them, and then ordered their arrest and banishment. Alternately banished and recalled, now collecting debts by Royal assistance (on condition that a large proportion of such collections went to the Crown) and now having their property confiscated by the King, the frugal or miserly instinct of the French Jews certainly brought them no return in the way of

happiness. And though banking history has, as we shall see, reached a far different stage in France from that just mentioned, the feeling against the Jews still exists—the penalty of having more wealth and an instinct for carrying on a more lucrative business than their neighbours have.

The Jews have also at various times been persecuted in England, but Henry III. was one of those monarchs who allowed them various privileges. For instance, they were permitted to take 2d. per week for each guinea they lent the scholars at Oxford. They were, however, temporarily banished from England in 1290.

The mainspring of modern Governments would seem to be a national bank, which is used for the purpose of bolstering up the credit of the country in question—an operation frequently desirable and requiring much delicate diplomacy. But the idea itself can hardly be termed modern inasmuch as it was put to practical use in Venice as early as 1156.

In this year the Doge of Venice levied a forced loan on the wealthiest citizens, assuring 4 per cent. interest to the creditors.

The subscribers were authorized to open an office for the purpose of receiving deposits and issuing "orders" payable in ready ducats of a fixed standard. They also made transfer of funds by signed instruments. This office was the nucleus of the system which ultimately

developed into the Bank of Venice, an institution of great and exceptional vitality, as shown by its continuation until the fall of the Republic.

In Florence the private banks of the Peruzzis and Bardis underwent many vicissitudes before they were asked by the State to take up and consolidate all the existing State Loans. This was in 1336, and the rate of interest on these "Consols" was to be five per cent. The bankers were allowed to collect the tax on salt so as to secure the interest. This consolidation was not consummated until 1348. Meantime the Peruzzis and the Bardis had suspended payment, owing to a default on the part of Edward III. of England. Ever since 1199 Florentine private bankers had been acting as bankers to England, and to a certain extent, to France. They lent huge sums to the English Government, and the Bardis on one occasion had their London house burned down by an angry mob, owing to the large exportation of gold caused by one of the repayments.

The general good fortune which had hitherto attended all the operations of these bankers was, however, destined not to last, and it came to an end in 1339, when Edward III. issued an edict repudiating liability in respect of the vast sum he had borrowed from them to carry on the French War, thus precipitating the first and greatest money crisis of

mercantile and financial history. It is sad to read of this undeserved downfall of men of probity, wealth, and caution. It is a question whether all the wealth of these great banking geniuses ever brought them sufficient recompense for the heartbreaking failure thus forced upon them. One of the Peruzzis died of grief in England, but the others, and the Bardis, managed to literally "worry along" until 1345, when they stopped payment, dragging down with them in their ruin the whole mercantile world.

It may be noticed here that without the sum thus obtained by England from these bankers, it would have been impossible for this country to have won the victory of Ecluse, and the whole map of the world would, as a consequence, have been totally different. Whether it would have been better not to have dishonestly obtained this sum, and to have had England become then a part of the French monarchy, is a question for moralists. Our object is only to point out how powerful an influence banking has always had upon politics.

In Florence, owing to this financial and industrial crisis, the people blamed the Government, and to such an extent were they incensed against it that they turned it out of office, and allowed themselves to become the victims of a crushing despotism.

A century later Cosmo de Medici, beginning as a

banker, rapidly rose to be the real power over Florence. He seems to have had a charge on all the producing property of that place, besides having a banking office in every city in Italy, and large sums advanced to the King of England. The melancholy experience of the Bardis and Peruzzis, one would think, should have deterred Cosmo from taking the risk of placing his deposits with a foreign King, where he would be quite unable to call them in if needed. A banker who, by the sheer force of his genius, became the dictator of his country, should have been wise enough to profit by the knowledge of former disaster. When his son Pietro, who succeeded him, needed money in a hurry, he was obliged to call in his Florentine loans, which proceeding caused an unpopular stringency of money and the immediate result was his fall from power and influence.

"The Bank of St. George" was started in Genoa in 1345, for the purpose of financing and managing the public debt of that city. It was regarded, according to M. Pierre des Essars, as a conservator of peace and it was "at once a commercial bank, a State depository for the revenues, a contractor for the taxes, and a political custodian."

A notable feature in the history of this bank is the long duration of its existence, it lasting until 1800. This period of 455 years is said to be the world's record for the life of a bank.

Sicily very early developed a banking life, anyone being allowed to open a bank who had 15,000 crowns capital and who could find an additional surety for the same amount. It was here, apparently, that the system of double-entry book-keeping originated, for a curious old manuscript, dated 1398, is still to be seen in the public library at Palermo, wherein this system is recommended for bankers, and the invention attributed to a monk of that place. Sicilian banks were very successful in obtaining deposits, and when a failure of the "Lombardi" took place in 1513, the common people had so much deposited that the Government had to reimburse all the small depositors to prevent a rebellion.

In examining the beginnings of the world's banking it is only meet that China and Japan should not be forgotten. In the East as well as in the West banking influences have often dominated politics. Martin's excellent History of China is the authority for the statement that as far back as 119 B.C. bank-notes, of a primitive nature, it is true, were used in that country. Each note was on a piece of skin a foot square with its value stamped on it with an official seal. So many seemingly incredible facts are more or less unhesitatingly accepted about the ancient civilization of China that we need not speculate upon the probability of this one, especially as this invention of bank-notes led to nothing, either in the development of the idea in the East or its

introduction into Europe. As the Chinese first discovered gunpowder, but soon fell behind in the art of using it, so they may have experimented in an abortive way with many other "modern ideas," including that of "paper money."

It is certain, however, that by the year 1256 A.D. the Chinese manufactured paper and issued paper money which was guaranteed by the Emperor and enjoyed general confidence, but no banking, in the modern sense of the word, ever has been, or is now, expressly authorized by the Chinese Government. Private individuals have from time to time engaged in banking, but their scope has not been large.

For successful Eastern banking we must turn to Japan, the originator of Usury Laws and of a Pawnbroking Act.

In 766 A.D. coiners were condemned, when caught, to hard labor in the mints, which is a gentle reminder that Japan is the country where the punishment is said to be made "to fit the crime." But since those days Japan, in the race for highest culture, has come well to the fore, and the modern civilization is quite different from the topsyturvydom of some centuries ago. Then, instead of the most far-seeing and ablest men being selected for the bankers, people borrowed principally from the *blind.* Any Japanese so fortunate as to be born blind, previous to 1765 A.D. (when the "Anti-blind-man" law was

passed) became a banker, and was enabled to collect his dues from all defaulters by a species of blackmail. He stood before the debtor's house, and, crying aloud night and day, refused to leave until the debt was paid with a premium. He was the antitype of the modern "broker's man," who requires his expenses in addition to the amount of the debt, before he can be induced to take his departure.

We have thus far been enabled to gather that our present system of banking is not one which has been formed straightway, or evolved directly out of the brain of some great financier, but one towards the consummation of which widely differing systems have been converging through centuries of experience, developing and expanding on their ways, devious though some of these may have been. The result is now on trial, but further evolution is inevitable, and certainly also desirable, for we have not yet arrived at what can, with any amount of justice, lay claim to be an ideal bank.

CHAPTER III.

POLITICAL INFLUENCES.

That modern politics are dominated by banking is a broad assertion which needs the evidence of many facts to support it. In times past, however, the influences of banking over politics have been undoubted. It is proposed to place before the reader a brief notice of some of the most striking events in political history which have absolutely been governed by finance.

In 1335, Henry III. could not, as mentioned in the last chapter, have carried on his war with France but for the Florence bankers. In 1435, the English could probably not have been driven out of France but for the banker, Jacques Cœur, who lent Charles VII. the necessary funds to support his army, and thereby assisted in putting an end to the "Hundred Years War." In 1639, the French banker d'Herwart supplied Louis XIII. with the funds to save his army from going to pieces. In England, Cromwell drew from the "Goldsmiths," as the London private bankers were then called, sufficient funds

to carry on his campaign. Without these funds he would doubtless have failed, and the subsequent history of England must needs have been considerably altered.

But nowhere else has the business of banking had such a great political significance as in America. Previous to the American Revolution numerous swindling "land banks" in what were then known as our Colonies were issuing notes broadcast, and repudiating them afterwards when presented for payment. Professor W. G. Sumner, of Yale University, admits that it was the just repression of these wild-cat schemes by England which led to the Rebellion.

> "All the jargon about liberty and the charter was repeated. The irritation produced in the Colonies by the attempts of the mother country to restrain paper issues contributed more than perhaps any other one thing to produce that estrangement which resulted in the Revolution." *

Whilst the American Revolution cannot, perhaps, be regarded as a great historical war in the sense of the number of forces engaged, or the number of the slain, it must certainly be admitted that, in respect of results, it was one of the most important wars ever fought. The American Civil War, on the contrary, was more notable for its casualties than its political results. But here, too,

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* "History of Banking in the United States," by Professor W. G. Sumner, of Yale.

the influence of banking made itself prominent. The agitation began in the State of Mississippi in 1838, when the State Bank Commissioners reported: "The history of civilization affords no evidence of any device so simple and so efficient in reducing a country to vassalage as these principles of banking."

The question of States' Rights as against Federal Government was the mainspring of the war, and while the agitation against banks began in the Southern States, it had not at that time developed into the violent mania for decentralization which precipitated the terrible conflict.

The United States Federal banks had been very badly managed, and their failure and winding up, after they had enforced unfair advantages for their branches in the Southern States, undoubtedly helped to arouse that feeling which ultimately led to the war. Again, according to Professor Sumner, the war could not have been carried on but for the financial assistance of the State Bank of Louisiana, which at the beginning of the war had the largest cash reserve of any bank in the United States ($4,133,000).

This bank, as well as all the other Southern banks, was ruined in the war. They were caught in the vortex and could escape neither the demands of the Confederacy on the one side, nor the vengeance of the conquering Union on the other.

Though it would seem to be in the nature of banking to control the politics of the world, it is seen that sometimes the horse, metaphorically speaking, takes the bit between his teeth and dashes the daring rider to wrack and ruin. And in that event, the latter often proves to be a stumbling-block over which many others fall—never, perhaps, to regain their footing.

CHAPTER IV.

CAUSES OF FAILURES.

It is a noteworthy fact that almost every bank failure that has ever taken place would seem to have had its source in the acceptance by the banker of security otherwise than absolutely genuine. A security that would form a suitable safeguard for a banker is, for instance, a bill of exchange which answers to the following definitions.

(1) A bill which represents its value in merchandise waiting to be re-sold to consumers; and (2) which stands for a debt for such merchandise acknowledged by a man or firm of means and honesty and who is not "over-trading," *i.e.*, giving too much credit, or carrying too large a stock, on too little capital.

The first of these items may perhaps not be pledged for the payment of a bill, but it is nevertheless most important to see that it actually exists.

"Accommodation bills" are bills for which this first item does not and never did exist, and they have been the cause, again and again, of the failure of banks.

Lending to Governments, too, on the faith of their honesty alone, has always been a fruitful cause of disappointment and failure. From the time of the Bardis and Peruzzis to that of Baring, from the early English defaults down to the Guatamala swindle, Governments generally have always given evidence of a more or less shortsighted and dishonest financial policy.

In fact Governments have grown so callous in this respect that it is no longer looked upon as wrong for them to arbitrarily make alterations in the bargain in their own favour, after the debt has been contracted, or to suddenly abandon a scheme of redemption which has been practised for many years, and trusting in the continuance of which thousands may have invested their all. If the most honest Government on earth were but to keep scrupulously to the precise letter of its contract with its debtors, there would then be one class of Government security which would not be a source of weakness, at its face value, in a banker's balance sheet.

But it has gradually grown to be regarded as a banking principle that no loans should be advanced on mere faith in honesty alone, whether to individuals, companies, or corporations. It is held that people should not borrow more than they have security to cover, and that it is contrary to every good precept to encourage them to do so. A feeling is increasing, too, that even a

State should not borrow more than it is able and willing to support with tangible security, and with legal power to enforce that security in case of default. To lend to a State on its honesty and honour alone is to lend on a pledge which may evaporate with surprising celerity should some future change be made in the personnel constituting the legislative or executive power in that State.

The practice of lending on land has probably been the cause of failure of more banks than any other one custom. The value of land is by no means a fixed quantity. If one individual owned all the land, he could charge as rental all that the rest of the world were able to pay, in which case he could advance the nominal price by reason of his monopoly. If, however, he granted leases on land, these leases could be bought and sold subject to his ground rent, and would be worth little or much to the purchasers according to the use to which they could put the land; but intrinsically such leases might be worth absolutely nothing.

Now all land, in every country, is subject to the tax, rate, charge, or rent (it matters not what it is called) of the Government. In every country the Government taxes the land to as great an extent as the people will endure or are able to pay. A so-called "freehold" therefore, never was, and never can be, anything but a perpetual lease, subject to whatever charge the Government likes to

make year by year. These "perpetual leases" may be very valuable to those who have a use for them; but intrinsically their value, if existing, is an elusive quantity. Modern bankers do not lock up any money in permanent loans on land.

Sometimes land may be taken as security for a month or two, on the understanding that, in case of a decline in the market value, the loan may be immediately called up and the security realized, but the "land bank" idea is happily exploded, and successive failures have inculcated the very necessary lesson that LAND IS NOT A BANKER'S SECURITY. The false idea that the "market value" of land is a good basis for a loan, in conjunction with the ideas that Governments were honest, and that honesty was a quality good enough to lend on, was the cause of the crisis of 1763, which began in Amsterdam with De Neufville's great smash, and dragged down 37 Hamburg, 20 Dutch, and 20 English houses. Nevertheless, ten years later, Holland proved that she had not yet learnt the lesson, and her houses failed for ten millions sterling. Hamburg too, in 1799, stumbled on the same disastrous error as before, and 82 of the local houses failed for £2,000,000.

The "land bank" fallacy has been all round the world—from England to Calcutta, from the United States to Australia and South America. Everywhere the same causes, the same trusting faith in the intrinsic money

value of "honesty" or of land, proved the ruin and downfall, not only of the bankers, but of all who were in business relations with them. It is sad to contemplate that what should be regarded as the most precious of gems, the brightest jewel in the crown of a man's character, namely, his honesty, has, intrinsically, no money value whatsoever. It is, perhaps, the most valuable asset which a man may possess or preserve; but, however highly he himself esteems it, he must not look upon it as a suitable security to offer a banker as a pledge for a loan. To him, a man's integrity is valueless when taken by itself, and the unfortunately long list of calamitous failures which a forgetfulness of that fact—a credulous trust in uprightness generally, carried in its wake, has taught him to decline to grant a loan on such dubious security. And, though it seems peculiarly painful to have to say so, it is only right that he should so decline to lend, even on the indubitable rectitude of the most sincerely conscientious man, or body of men, it is possible for anyone to conceive.

Examples are legion. In 1814, 240 English banks failed; in 1831, Calcutta houses did likewise to the extent of £15,000,000; in 1837, every bank in the United States closed its doors. The sole reason for all these disastrous occurrences can be fitly summed up in a single phrase—land and credulity.

Then, again, the same answer would satisfactorily

explain why, in 1839, no fewer than ninety-three French companies failed for a sum of £6,000,000; the panic thereby created in this country compelling the Bank of England to borrow from the Bank of France to save its credit; and still later, when the crisis of 1847 caused failures which totalled up to £20,000,000, disorganized trade, and put up the Bank rate to 13 per cent., the same causes were at the bottom of it all—land and credulity. America is a country of "big" things, and it is therefore quite in its order when we look to that country to supply the biggest "smash," and we are certainly not by any means disappointed. It happened in 1857, and the panic in that year swept over the United States with uncontrollable fury. No fewer than seven thousand two hundred houses in that country failed for a sum that totalled up to over one hundred millions sterling, besides the failures, consequent upon those, which took place in England. The source of this calamity was, as in the previously mentioned cases, to be found in the fact that mortgage loans on land in the States proved valueless when the time came for them to be submitted to the test of realization.

But we are not without our own, home-made, "horrible example," and this was of very nearly as great magnitude as the American one just noticed.

In 1866, Overend, Gurney & Co. failed, dragging down with them as they became submerged, English

business confidence and credit to the extent of one hundred millions sterling.

Why it is that each generation has to learn again the lesson so rudely taught in every preceding decade, is a mystery which only those who study the psychological influence of calamity can venture to explain. One might well be excused for thinking that the lesson would have been learnt by bankers long before 1866, and that loans on land, good faith alone (whether of Governments or individuals), and on "over-trading" would have been avoided as poison. But they were courted instead of shunned, and the consequently inevitable crash was bound to come.

In 1878, a "tightness" of money hampered trade, injured credit, and caused many failures. It was brought about by bankers' credulity in lending on "good names," together with a depreciation in landed values.

In 1890, the "Baring" crisis came to drive home once more the lesson that Governments are not to be implicitly trusted. Argentine securities fell when the "integrity" of that Government was found to have never existed, and its lands to be worthless for realization.

In 1900, a money tightness began in Germany, owing to the small bankers having lent money on land, and shortly afterwards the London banks found themselves compelled to refuse to lend against shares of various kinds. This hastened the inevitable "London

and Globe" collapse and later on caused a "panic" in the American share market. In this connection it may be noticed that the speculation in Northern Pacific shares, which led up to that panic, was in reality no more than a speculation in land shares; for the Northern Pacific Railway was purposely built crooked, so that the Government bonus of "every alternate section of land within forty miles of the track" should comprise as much land as possible. In June 1901 the Leipziger Bank, one of the largest banks in Saxony, got into difficulties through "accommodation paper," and the officials are, at the time of writing, being subjected to criminal investigation. This smash should emphasize the lesson some of the former ones have taught, namely, that there is as much difference between a genuine trade bill, as described in the beginning of this chapter, and a "kite" (however big the names may be on the latter instrument) as there is between a gold coin and its yellow counterfeit.

What will the next crisis prove? Will "land and credulity" again cause a panic, or will it be large stocks of unsaleable merchandise, huge expenditures of labour on unproductive wars or on other enterprises, that will shatter the public confidence? One good sign is the growing influence of the sound banks. The joint-stock banks are too careful to yield to the questionable seducements of land as security, and are not credulous enough

to fall into the mistake of lending on "honesty," and their enormous growth in influence and power may be looked upon as a protection against the recurrence of such disasters as have been recounted in this chapter.

CHAPTER V.

AMERICAN BANKING.

THE banks of the United States, which now have over one thousand million sterling in capital and deposits, rose from very small and very unsubstantial beginnings. These beginnings were Colonial, and have developed in one direction in the United States, in another in Canada, and differently in Mexico, South America and the West Indies.

If it may be accepted as an axiom that that man's character is the best, who has successfully endured the severest suffering, that system of banking might be expected to excel, which is the product of the greatest tribulations and severest financial cataclysms. But the National Bank system of the United States is comparatively new, and it is much too soon to pronounce it the world's best system, in spite of the bitter experiences which begat it.

When the European nations began to colonize the great West, millions of fertile acres fell to the lot of the colonists. This land yielded more in proportion to the labour expended than would ordinarily pay for that labour, together with a fair interest on the capital invested.

This naturally increased the demand for labour, and caused the whole surplus produce of the colonies to be spent in attracting and bringing more labour. No circulating medium or store of gold was accumulated, because an investment in labour paid better. The land itself was their sole wealth, and for the purposes of a circulating medium they desired to issue paper money against the land. This idea is essentially the idea of Colonial pioneers, who first get their land for nothing, then reap a paying income from it, and finally want to use it as money. More particularly did this theory find favour in the then English colony of Massachusetts, and also in what were at that time the French colony of Canada and the Spanish colony of Cuba. In Spain's other colonies the mining or gold-hunting instinct was prominent and the "land bank notes" were not called for.

THE ANTI-GOLD CRAZE, which began in those early days, is still a political factor. "You shall not crucify mankind upon a cross of gold" has ever been the cry of the freehold farmers, who wish the "connection between money and might" to be severed. Mr. Bryan's

wish to demonytize gold is only another way of wishing for a circulating medium based on land, or, as a step towards land, on silver, wheat, cattle—anything but gold.

In Massachusetts various attempts were made between 1630 and 1714 to establish a permanent "land bank." In the latter year one was started by a company of "land-poor gentlemen." That is to say, they were possessed of land, but had no money with which to cultivate it, or even pay the taxes on it. On the strength of this land they issued notes and thus supplied themselves with plenty of ready money. This, and hundreds of other Colonial banks, which started with security in land alone, soon collapsed.

In Canada, furs were used as money, and had a greater circulation than "land bank notes." The French Chartered Company had the colony by the throat and bled it to such an extent that there was generally no coin whatever there.

In 1685, the Governor, on his own responsibility, paid the soldiers with money made out of playing cards. He cut them into four pieces, each with the amount (generally 4 francs) and his signature written on the back. This "card money" lasted until the colony was conquered by England in 1760, when the French Government partially redeemed what remained of this peculiar currency.

In New Hampshire, in 1735, a private bank was

started and notes were issued payable in hemp, but this idea was not so attractive as the idea of notes payable in land, and the bank failed even quicker than if it had been a "land bank."

The Land Bank of 1741 began in Boston as soon as its proprietors applied for authorization, without waiting till the same was granted. Consequently, the Governor of Massachusetts, at that time Mr. Belcher, issued a proclamation against it, declaring it illegal and its notes fraudulent. However, this rebellious concern defied the authorities, and hundreds of other "land banks" followed its example. It then became imperative that the Mother Country should interfere, but even after the Act (14 George, c. 37) was passed, the Land Bank continued to resist and apparently had the sympathy of the people with it, for the efforts made to enforce the law against the bank added much, as mentioned on page 24 to the bad feeling against England. This Land Bank seems to have done nothing but harm. Thousands of people were cruelly victimized, and its fraudulent and vicious course continued for about twenty years before legislation was able to reach and curb it, but the hundreds of partners it had were all ruined in the end.

After the Revolutionary War, the people of the United States, notwithstanding that they had fought partly because their banks were interfered with, did not wish to have such a thing as a bank at all. Two

institutions were founded, however, for political purposes, by the ambitious politicians Alexander Hamilton and Robert Morris. One was the Bank of North America and the other was the Bank of Pennsylvania. The former began business in 1782 with a capital of 200,000 dollars, paid in by the Government. Other subscriptions to the capital were made, but not paid up, and it was intended to issue as much paper money as possible. Morris's idea was that any quantity of "greenbacks" could be issued for purposes of the Government, and he therefore deserves the title of "the father of American greenbackers." The craze for "greenbacks" *ad libitum*, or notes issued with the Government's signature and no redemption store of gold, was only another form of the craze for land notes, hemp notes, free coinage of silver, etc., that has always found a party to support it in America.

The Bank of North America was in difficulties almost from the first. One of the devices employed by it to inspire the public with confidence was to keep on raising and lowering into their building boxes supposed to contain silver, and to be always counting large sums of silver on the counter. With this silver—which, by the way, was originally borrowed from France by the United States Government—an impression of wealth and stability was created; but, when the bank had to come to the help of the Government in 1784-5, its resources

were found hardly equal to the strain, and such was still the prejudice of the people against banks that the Charter was revoked. Then followed a "bank war," which lasted for half a century. Banks were held to be contrary to democratic principles; they were the "enslavers of labour, the bane of commerce, the destroyers of enterprise, and the degraders of integrity." All the fierceness of debate which the American can, on occasion, summon up, was thrown into the struggle. Banks were denounced as a curse to the agricultural community, unless based on land. Banking proper was "a system of speculation, calculated to suit the speculatory and mercantile class at the expense of the farmer." One argument against banks was, that they were only of benefit to a monarchy. This argument was the very reverse of that said to have been used in this country on the founding of the Bank of England, namely, that banks had never existed save in republics, and were actually unfit for monarchies.

Various experimental efforts were made during this period to establish a sound banking system, but even when these experiments proved fairly successful and promising, the banks established were unable to resist the farmer-cum-greenbacker-cum-landbanker-cum-silverite political influence. For instance, the first "Bank of the United States" accomplished all that could have been expected of it, and was as carefully

managed as the opinions of the finanical world at that time would permit, and yet external influences finally forced it into liquidation, in spite of its complete solvency.

The plan for the organization of this bank was drawn up by Alexander Hamilton. He was the great financial genius of those days, and many of his plans were so good, considering the time in which he lived, that one would fain have had them accorded a better fate than that which they received. He was, however, under the misapprehension that a printing press could, by printing notes, "enhance the quantity of circulating money," and he caused the whole nation to lose sight of the consideration that nothing can "enhance the quantity of circulating money" except profits made, or produce sold, by the people or nation among whom the quantity of circulating money is to be enhanced. If the people made profits and kept those profits in money, nothing could prevent them from having it, or prevent it from entering into circulation. If, on the other hand, the people earned no profits, or sold no produce, they would not have money in circulation, whatever legislation was passed and whatever banks issuing notes were established.

The first Bank of the United States was chartered in 1791, in spite of the opposition of the Southern States. The capital was 10,000,000 dollars, but, though it was

all subscribed at once, no more than 500,000 dollars was ever paid up in specie. Unlimited issues of notes were made, but were intelligently loaned, and the bank made a good profit year by year. Thousands of shares were sold in London, by Sir Francis Baring, at a premium of £10 per share. In spite of its comparative success, however, its political enemies succeeded in accomplishing the repeal of the Charter in 1811, and the bank had to be wound up. It promptly paid all creditors in full and returned to stockholders not only their original capital, but 9 per cent. over and above.

During the twenty years of its existence it had paid an average of 8¾ per cent. dividend per annum.

Meantime, a large number of small banks had been established and a large quantity of notes issued. It is true that each bank's notes would only pass current in its own district, while notes of the Bank of the United States were accepted everywhere throughout the country. To push the notes of the small concerns into circulation the most extraordinary devices were resorted to.

Tradesmen who were shareholders would receive a quantity of notes to exchange. They would then always proffer these notes, in changing money for their customers, and keep back all the notes of other banks which they might receive. Two banks, starting without capital, would lay in a supply of each other's notes, and designate such supply in their annual reports as

"specie." While these methods lasted, all the schemers thought themselves wealthy, but when the unavoidable collapse came, each one knew himself to be hopelessly ruined. The alternation of undue inflation with sudden panic, and severe legislative restrictions with unbridled licence to swindle, constitute the whole history of American finance down to the establishment of the National Bank system in 1863. Meanwhile, the second "Bank of the United States" fared no better than the first. Although based on a prudent and substantial foundation it soon lost its National charter, and became degraded to such an extent that it had to resort to bribing the legislators for the purpose of obtaining a State charter from Pennsylvania, 400,000 dollars having been used for that purpose. It was started in 1816, and prospered, under the genius of Nathanial Biddle, until 1835, when it lost its National charter. Then it started on a career of political bribery and wild-cat finance. It would seem to have caught the speculative fever from the thousand and one tempting fortunes then being won by irregular methods.

Every State had its banks. Some were land banks, it being necessary to truckle to the greenback prejudices; some were based on cotton, and others again on grain and wool. Some held bonds of the particular States from which they held charters, and still more had neither land, cotton, grain, wool, bonds, gold, or any other asset, save what existed in the imagination of their founders. All

these banks went down in the great crash of 1837, but similar institutions soon sprang up again, the political and financial situation being then like a garden where all the legitimate plants are pulled up and the weeds allowed to flourish.

In 1863, the unsound financial principles of the South ceased to exert the influence which had been the bane of financial legislation till that year. Having rebelled against the Union, partly because of their difference in banking sentiment, they no longer took part in the legislation at Washington, and at last it became possible to pass a sensible piece of banking legislation. All that was now required was the appearance on the political horizon of some strong, brave, honest man to direct attention to the crying need for wholesome reform. Abraham Lincoln was just such a man. No web of tangled sophistry could obscure his clear and discerning vision of the principle of honesty, and he wished for legislation under which his favourite expression, viz.:—"Honesty is the best policy," would prove true.

Under the National Bank Act roguery for the first time proved ruinous, and that Act alone did much for the commercial honesty of a nation, which, up to the time of the passing of that Act, could hardly boast of the possession of such a quality.

The provisions of the Act have been altered from time to time and are now very broad in principle. Any

body of men, if of means and respectability, can establish a bank under the Act, providing they have a genuine paid-up capital. This capital need not exceed 25,000 dollars, if it is proposed to establish the bank in one of the smaller towns. No notes can be issued by any bank unless United States Government Bonds are first deposited with the Government Treasurer at Washington. But the more important part of the Act is the provision for Government supervision of accounts.

An official may be expected to appear any day at any bank organized under the Act and overhaul the books, vouchers, and cash. As this work is thoroughly done by the Government, accounts have to be kept very accurately, and nearly every attempt at "faking" the books of a National Bank has at once been discovered. A president, vice-president, and cashier are the officers necessary to manage a National Bank. Very often, however, an "assistant cashier" and sometimes a "second vice-president" are added. Very few have "secretaries," the duties of the office being generally performed by the cashier. The banks have no central board of control and are therefore constantly competing in a friendly way against each other. Some day all this will be changed and a giant organization rule supreme in American money matters, possibly supreme throughout the world—a bank trust, in fact.

The number of National Banks organized under the Act exceeds six thousand, which figure has been reduced to about four thousand by amalgamation and liquidation. The harmony with which this enormous number of different corporations work together is a testimony to the remarkable qualities of the great system. As England's place among nations is largely due to a banking system, so it may well be that the American banking system will help that country to the front. Indeed, American students of political economy all predict that the day is not far distant when New York will be the banking centre of the world. And while taking this unanimous optimism for what it may be worth, it is none the less incumbent on England to carefully examine her own system before pronouncing it a match for its young but herculean rival across the water.

CHAPTER VI.

LONDON: THE CLEARING HOUSE OF THE WORLD.

A MERE bald recital of the occurrences of history does not explain to us the present situation of our finances, unless these occurrences are grouped with due perspective, so as to present to the eye of the reader a picture which is perfect in itself. Some day, perhaps, we shall have the facts that have led up to England's greatness so collated for us that the whole picture will fascinate by its very simplicity. We will see how capital has increased, trade has developed, and commerce has spread. We will see how these three forces have naturally and inevitably won for us new colonies and territories, and how we have thus become a great Empire. We will also, perchance, see why other nations, which were previously far ahead of us in the race, are now lagging behind, and we shall learn the secret of the *Evolution of supremacy*. For the present, we must content ourselves

by taking the apparent causes of this progress seriatim, instead of attempting to group them into a harmonious whole.

Apart from any question of moral or physical superiority of the individuals comprising one nation over those of another, we have to consider the influence of commercial and legal systems, and advantages of geographical positions.

It is pleasant, no doubt, for Englishmen to consider that, as individuals, they are, morally and physically, superior to foreigners. But as it is practically impossible to trace any gain as against other countries in the course of our career towards commercial predominance to that particular kind of individual superiority, we can easily pass that consideration by; also the geographical one, for while the centre of commercial activity is undoubtedly changeable, still that centre is no nearer to us now, geographically, than before our commerce began.

There is therefore only one cause, among those mentioned above, to which we can give any credit for our growth as a nation. That cause has, no doubt, been present at every nation's "spurt" in the race for supremacy. Some commercial system has always been a factor. But nowhere else and at no other time has the influence of a banking system been so obviously paramount as in this latest advance to the front—the advance of England.

Other countries had much to contend with which our own fortunately escaped. England had at one time a heavy import duty on silver, which prevented our treasuries being stocked with that metal at a time when it was considered as good for its money face value as gold was. The financial set-backs that the United States and France have experienced through being overstocked with silver on a falling market were thus avoided. England also had the advantage of having the bonds for practically the whole of her National Debt held internally, and thus was saved the expense of paying interest to other nations. But the one great advantage during the period of comparative progress, was the system of banking, of which the Bank of England was at once the form and the spirit; the originator and the result.

During this period all other nations were experimenting with both crude and refined methods of banking. Sometimes swindlers would be freely allowed to float their airy schemes, sometimes honest bankers would be severely punished—perhaps for misfortunes brought upon them through short-sighted and childish legislation. The Bank of England alone could be depended upon to work on the same principles one day as those which were in force the day before. These principles may not have been the best, but at any rate they were not of the "shifting sand" order, so universal elsewhere during that era. Whatever may be said about the Bank of England, there

is no doubt whatever that the present supremacy of our country would never have been reached without the help of that institution. The history of the Bank of England during the period mentioned presents not the history of banking in England alone, but also the record of the only sane banking in the world.

The Bank of England was established in 1694. The Rev. W. Patterson, who drew up the scheme, does not however, seem to have benefited much by his brilliant idea, for he died in poverty. Neither can the original shareholders be said to have profited so greatly as the world-wide success of the giant monopoly would lead one to expect, seeing that the present return on the market capital value of the shares is only 3 per cent., and that the said market capital value has only increased at the average rate of about 1 per cent. per annum. Compare this result with the capital increase and dividend rate of the later comers in the banking world and one is reminded of Emerson's lines :—

> Say not "The Chiefs who first arrive
> Usurp the seats for which all strive."
> Our forefathers, this land who found
> Failed to plant the vantage ground.

But if the enormous success of the Bank of England did not bring commensurate profits to the people who staked their fortunes in it, when there was every likelihood of its existence being ephemeral, the Bank has, in the many years which have elapsed since its birth, repeatedly

rendered very great services to the State. It was well, indeed, that it should have done so, for many were its enemies amongst the experimental financial legislators of the early part of its existence; and, had it not been so obviously useful to the Government, it would doubtless have fallen a victim to the childish attacks of these experimenters.

The original arrangement was that the subscribers to a Government loan of £1,200,000 should be formed into a corporation, with a monopoly of the power to issue notes in London. In addition to that, the Government agreed to pay 8 per cent. per annum interest and £4,000 a year for "management" of this loan.

The first charter was practically for twelve years, but the management of the Bank took care to have it renewed from time to time, well in advance of its respective expirations. Each renewal of the charter has been made the occasion of further borrowing by the Government.

The renewals, as well as the original grant of the charter, were all dictated by the Government's need of money for political purposes. Indeed, the charter would never have been granted if the English Government had been able to borrow in any other way. But the Stuarts had ruined the credit of the Crown, and the war against France, declared by William of Orange after he ascended the English throne, had drained the Govern-

ment of every penny it could raise by taxation or loans.

Never has the credit and good faith of England been held so low as it was at the end of the seventeenth century, when the Bank of England was chartered. Never has the credit and good faith of any country in the world been held so high as that of England to-day, after two hundred years of the Bank's success in attracting business to its country. What England's credit is to-day will be understood when the National Debt (say £700,000,000) and huge sums for which postal orders have been issued and not yet paid are estimated relatively with the nearly two hundred million sterling deposited in the Post Office Savings Bank. Especially when the low rate of interest allowed is remembered will it be seen that England's financial credit is now at least as high as it deserves to be, considering that up to the establishment of the Bank of England the Government was both persistently dishonest and persistently insolvent.

In 1708-9 the Government was again in great pecuniary embarrassment, and the price of the additional loan required from the Bank (£2,175,027 17s. 10d.) was an extension of the charter, a law to extinguish a rival (The "Mine Adventurers of England") and permission to double the capital stock.

It must be noted that the following three quantities

have always practically kept pace with each other, viz.: The capital stock of the Bank, the amount owed to the Bank by the Government, and the amount of notes it was allowed to issue (except issues against actual gold coin deposited in its vaults). In 1713 the Government again applied to the Bank, on the strength of the terms of the Peace of Utrecht. This time £2,000,000 was wanted, and the Bank received (1716) an exemption from the Usury laws and a prolongation of its existence until all the public debts due to it should be discharged. As it was safe to predict that England would never pay off its total indebtedness, the meaning of that extension could be taken to be that the charter should continue for ever. This interpretation, however, was not the one intended, as the year 1742 was fixed upon for the next renewal.

In that year the Government required £1,600,000 more from the Bank, in exchange for which Parliament passed a law which so well known an authority as Mr. H. D. MacLeod declares was intended to confer on the Bank of England the monopoly of all banking. Perhaps the Bank of England might even now cause all the joint-stock banks to close their doors if it were to take action in the matter, for the law is still in force, is very clear as to what was meant, and the most eminent jurisprudents hold that a law should always be interpreted to have precisely the meaning intended by its framers.

This law says:—"It is hereby further enacted and "declared that it is the true intent and meaning of the "Act that no other bank shall be erected, established or "allowed," etc.

The contention of the joint stock banks is that the further prohibition contained in the Act against issuing notes constitutes a definition of what was meant by a "bank," but it is just possible that this view would not be upheld in the courts of law.

The charter was also formally renewed to 1764, this time on condition that the Bank made an absolute gift to the nation of £110,000 and a loan of £1,000,000. It seems that the Bank bought and paid for a monopoly which it does not enjoy, and for a "perpetual" charter (until enormous sums should be repaid) of which it has had to purchase renewals. In this respect the Bank has only been treated in the same spirit in which Governments always treat their creditors; and in spite of what was, strictly speaking, an injustice, no complaint has ever been made.

In 1800 the charter was extended to 1833, the price in this instance being an advance to the Government of a further £3,000,000 without interest for six years. In 1833 the Bank gave up £120,000 per annum out of the interest and "management" money it received from the Government in return for another ten years' extension of its charter.

We now come to a most important stage in the career of this great undertaking, for in 1844, a very important change was made in the Bank charter by the Government. The charter was renewed upon the conditions that the issue department should be separated from the drawing department, and run more for the profit of the Government than of the Bank, and that a further £50,000 per annum should be paid to the Government for the "monopoly." The law embodying these items renewed the charter "till 12 months' notice "to be given after the first of August, 1855, and repayment of all public debts and all other debts whatever." As the Bank had then, has still, and always will have, some few bad debts on its books or "written off," it follows that this law extends the charter forever, even apart from the inability of the Government to repay its own debts.

To show how important it was for England to have such an institution it is merely requisite to go back to the early troubles in which the Bank was the mainstay of the national credit. In the years preceding the panic of 1797 (in which year the cash in the Bank of England was barely £1,000,000, and that institution suspended cash payments, while the price of Government Consols fell as low as 53 per cent.) the Government, under Pitt, had again and again drawn on the Bank for huge sums to send abroad for the purpose of subsidizing France.

But Napoleon was not to be "bought off," and these costly attempts failed. Pitt engineered a bill (Statutes 1793, c. 32) through Parliament allowing the Government to draw to an unlimited amount on the Bank. This put the Bank at his mercy. The directors, at each fresh Government drain, pressed him for a promise of repayment. These promises he gave readily enough, but never kept them, and the Bank would bave fallen a victim to his short-sighted policy but for the energetic action of the proprietors, who not only threw all their private resources into the Bank, but obtained from the merchants of London a resolution that paved the way for the subsequent Act to forbid the Bank making cash payments. This resolution was to the effect that the circulating medium should be extended, if necessary, even without cash payments, as they trusted in the eventual good faith of the Bank. Many people had foreseen that the cash could not meet all demands and therefore each had made a rush to be first. This rush ceased and all was tranquil again as soon as the law was passed stopping specie payment.

The year 1825 provides us with a somewhat similar instance, when, after the resumption of specie payment, the rage for speculating in South American land shares and the credulity of country bankers brought the nation to the brink of bankruptcy. The Bank of England seems to have been the only institution which "kept

its head" in those speculating times, and its resources were again available in the time of need. The bullion in the Bank was reduced by ten million pounds and leave was obtained from Parliament to issue some one pound notes, which were found in an old chest just in the nick of time. The Bank helped all the institutions whose credulity had brought them into difficulties and saved all those which were really solvent.

Fourteen years later the Bank was once more obliged to come to the relief of other institutions, and even though it was necessary to procure credit to the extent of £2,000,000 in Paris in order to do so, it again saved public confidence from utter extinction.

In 1847 the Bank advanced huge sums to avert the ruin that the panic of that year threatened. Many sums, up to £100,000 each, were advanced to different country banks, and although the list of failures was a long one, the Bank saved all those houses whose position was intrinsically sound. The Bank was authorised by the Government to issue more notes, but the mere publication of this authorisation, taken together with the help given to other bankers, put an end to the rush for coin.

The directors then determined to adopt a rule, which still remains in force—namely, to regulate their official rate of discount according to the existing state of their bullion reserve for the time being. This is done on

the "see-saw" principle. When the bullion reserve is mounting, the discount rate is falling; and when there seems to be a drain of gold, the discount rate is put up.

In 1857, American land speculation and the foolish credulity of all English bankers, except the Bank of England, brought about a most acute and terrible crisis. This time other houses had to be helped by loans of amounts up to £400,000 each, and the Bank did not hesitate to save them even at a great sacrifice to its own credit and dignity. In fact, it proved necessary to take advantage of Parliament's permission to issue extra notes to the amount of £7,376,000.

A most unfortunate occurrence was the inability of the Bank, in 1866, to save the house of Overend, Gurney & Co., whose credulousness had led them into risking their customers' money; but it saved as many houses as it could, and had it not done so, the whole mercantile community would have been involved in ruin.

As recently as 1890 the Bank of England was able to protect the liabilities of the greatest firm that has ever been pushed to the wall—Messrs. Baring Brothers. With splendid energy it summoned all the other banks to combine, and a guarantee fund of £15,000,000 was raised.

The Bank also obtained help from the Continent £3,000,000 from Paris, £1,500,000 from St. Petersburgh,

and £500,000 from other sources. But for this timely assistance, "credit" would have been temporarily obliterated, not only in England, but throughout the world, and a panic, compared with which all similar disasters would seem insignificant, would have ensued.

The Bank of England may have made, during its existence, various minor mistakes of policy, and it is a noteworthy fact that Sir Francis, and some other members of the Baring family, were among its chief critics. But the Bank has never been led astray by an ephemeral speculative craze, and has always come to the help of other bankers who suffered for their own folly. Baring Brothers were the custodians of a most stupendous trust, but they were guilty of an equally stupendous folly. The fact that the Bank of England has never allowed itself to be led into any such folly, and has spent its existence in trying to undo the awful consequences of the credulous fatuity of such houses as Baring Brothers, should ensure for it the gratitude and respect of the whole of the people of England.

During the last fifty years other banks have been growing in importance. The tide of financial expansion has come rolling in, and these other banks, in and out of London, are pushing rapidly forward.

It may be that the tide will continue rising and that there will be no ebb; that the increase in commercial and financial activity will prove to be lasting.

But if the tide does recede, will it leave the Bank of England standing like a rock ever as firm as it has stood during the storms of the last two hundred years? Those who realise its greatness will answer, "Yes."

CHAPTER VII.

THE GROWTH OF THE JOINT-STOCK BANKS.

THE last fifty years of the nineteenth century were remarkable principally for the astonishing growth of the London joint-stock banks. Of these, the first important one to gain a foothold in London was the London and Westminster. This bank started with the advantage of having the services of Mr. James Gilbart, whose excellent work on banking may be read with both pleasure and profit. He was a man whose heart was in the banking business, and the London and Westminster Bank can well be proud of having enjoyed the privilege of his services. Since his death many other general managers of banks have impressed their individuality upon the organization and development of banking, but none have left a deeper impression nor made a greater advance than he.

The London and Westminster's branch at Westminster was opened at a time when a branch bank was

thought to be a most risky undertaking, and even the projectors themselves were surprised at the high degree of success attending the venture. Others soon followed the plan thus inaugurated, and there are now 681 banking offices in London alone.

The National Provincial Bank of England was established in the provinces long before its London office was opened. By opening a London office it had to give up the privilege it had hitherto enjoyed of issuing notes. Its deposits, however, were so much increased that it was more than compensated for the loss occasioned by this deprivation.

The London City and Midland Bank is like a river, whose volume is made up by the confluence of many smaller streams, each of which has its source in a different place. By means of commencing with small amalgamations, and following on with larger ones, its present remarkable size has been attained, and no one will be surprised when the next amalgamation is announced, however great a change will thereby be wrought.

Lloyds is also what might be termed an amalgamating bank, whereas the London and County does not seem so anxious to increase its power by sharing its name with other concerns. Barclay and Company, the product of a huge amalgamation, have been very quietly but rapidly coming to the front by competitive methods. Parr's Bank is another rapid advancer, and one which loses no

opportunity of purchasing the goodwill of any bank which may be for sale. Its sensational purchase of the Dumbells' defunct business in the Isle of Man is a case in point. The Union and Joint-Stock Banks confine their business to London, while the Capital and Counties, Manchester and Liverpool District, Williams Deacon, National, London and Provincial, and Metropolitan cater mostly for the provinces, and the London and South Western is strong in the suburbs. The astonishing progress made in money-making by this last concern is a possibly unpalatable lesson to the larger ones, who have missed the opportunity of occupying some good suburban corners. At a recent general meeting of this bank the chairman remarked that as the profits were so good, he could not recommend that any idea of increasing by amalgamations should be entertained. Of the other banks in London, Messrs. Glyn, Mills & Co. have the reputation of having the largest "turnover" of any bank with only one office, in the world, while the Birkbeck Bank can boast of the largest number of separate transactions per day of any one-office bank. Baring Brothers (Limited) are struggling upwards, reaping the advantage of the sterling honesty with which the members of the Baring family met the crisis of 1890. They are now trusted by the public with over £8,000,000 in deposits. To foreshadow the probable course of future amalgamations might give offence to those companies who may not be

aware of the unfailing certainty with which they will eventually be absorbed into greater ones. There can be no objection, however, to pointing out how useful a combination the Union and Capital and Counties would form, or what an additional source of profit it would be to Glyn Mills and Co., if they could purchase a bank with many branches. Moreover, should the competition become any keener, the smaller banks would find themselves forced to stand together in order to wield sufficient power to compete with the larger ones.

The objects of a joint-stock company are to pay dividends to its shareholders and to increase the capital value of its undertaking. There are a number of small banks which have not succeeded in these objects. If all these became welded together the dividends would doubtless increase, and the market value of the shares in the "combine" would be enhanced.

A recent novel has it that "the earth belongs to those who are numerous and healthy." Certainly banking profits flow into those banks whose branches are numerous and whose agents are pushing. A huge capital coupled with a small number of offices is the old-fashioned way of carrying on a banking business. It is undoubtedly an execellent thing to have a huge capital, as is the case, for instance, with the Bank of England or the London and Westminster, but the investors' money grows faster if invested in shares of banks with many

branches as the London City and Midland, Lloyds, or the London and South Western. The Bank of England could immediately embark upon the starting of a thousand branches, and, when these were in working order, it would be able to increase its dividend. But the directors naturally hesitate to place in the hands of each of a thousand agents the power to embezzle its funds. Nevertheless, those who take the risk and maintain, as in some instances, hundreds of branches, earn higher dividends than either the Bank of England or the London and Westminster. From these considerations it will be seen that amalgamations whereby the number of branches are increased are more to be sought after, from a dividend-earning point of view, than amalgamations which simply bring in more capital. On the other hand, banks have to be prepared for the periodical money tightness which comes, sooner or later, but which arrives with inevitable certainty, and those who have the greatest capital and the least risk from speculative business will then be the best prepared to meet that crisis. This fact, however, can only be urged against an expanding policy on the part of an established bank, and not against amalgamations whereby both capital and number of branches are increased.

The history of the London City and Midland Bank would admirably typify the growth of joint-stock banking in London. The following is a complete list of its

amalgamations up to the time of writing, but by the time this book is in the reader's hands another amalgamation which, for obvious reasons, cannot here be referred to, will doubtless have been announced.

Bates and Robins, Stourbridge; Nicholls, Baker and Crane, Bewdley; The Union Bank of Birmingham, Limited; The Coventry Union Banking Company; Leamington Priors and Warwickshire Banking Company, Limited; The Derby Commercial Bank, Limited; Exchange and Discount Bank, Limited; Leeds and County Bank, Limited; The Central Bank of London, Limited; Lacy, Hartland, Woodbridge & Company, West Smithfield, London; The Manchester Joint Stock Bank, Limited; The Bank of Westmoreland, Limited; The Preston Banking Company, Limited; Carlisle City and District Bank, Limited; Channel Islands Bank, Limited; Huddersfield Banking Company, Limited; North-Western Bank, Limited, Liverpool; Oldham Joint Stock Bank, Limited; The City Bank, Limited; The City of Birmingham Bank, Limited; The Leicestershire Banking Company, Limited; The Sheffield Union Banking Company, Limited.

The tireless energy and power of organization necessary to carry out these incorporations cannot be realized by anyone who has not had experience in this particular branch of the business. Outsiders see only the result, but not the painstaking and anxious care which

produced it. The man whose influence and energy have made the history of these amalgamations, has done much towards carving for himself a niche in the temple of fame in the banking world, and there is no reason why he should not be expected to continue that policy until he sits at the head of the banking power in England.

Joint-stock banking has prospered on the principle of the customer taking all risks. Private bankers can afford to lend without security to customers they know; but such business is invariably declined by joint-stock banks. They have gradually weeded out the more speculative business and thus forced the commerce of England into safer channels, to the mutual welfare and satisfaction of both banks and clients.

CHAPTER VIII.

THE SITUATION OF TO-DAY.

For hundreds of years there have been two forces at work, exerting diametrically opposed effects upon the equitable distribution of the recompense of labour and the increase of capital, viz.:—the unfailing tendency towards a general average, and the gradual expansion of credit.

Equitable distribution was at one time subject to violent fluctuations caused by individual action on the part of great financiers, often causing a panic or crisis. Now, however, the increase and distribution of wealth has raised the average of financial power, and made it impossible for any one man to cause a cataclysm by failing to meet his engagements.

The tendency of progress towards average is therefore the great force exerting a steadying influence upon commerce and the value of possessions.

By the way, it is not wealth alone that the progress of the world continually averages. For instance, in the

time of Homer, the average human being was ignorant and brutal, immeasurably below the average of the world to-day, and yet it is only the average that has moved upwards, Homer's own intellect having been seldom, if ever, surpassed. In the same way, the days when one man was able to conquer the world have gone by, never to return, for the reason that the average can never again be so far below one man as was the average in the time of Alexander the Great or Julius Cæsar.

Opposed to this great steadying force is gradually rising an equally great danger. The expansion of credit is becoming more and more threatening, and is the opposing force likely to exert a disturbing influence on the equity in distribution of the reward of labour and the increase of capital.

Not everyone is possessed of the ability to "think in millions," but the figures relating to the expansion of credit are so astounding that it is well worth a mental effort to grasp their meaning.

Statistics show that banking deposits alone, repayable in gold on demand, now amount to a total of 2,167 millions sterling, whereas the total gold supply of the whole world is only 1,235 millions, and of this only 790 millions is coined into money. To this startling discrepancy must be added thousands of millions which are represented by debts, all considered good, and all payable in gold. Then,

again, there are all kinds of property, merchandise, etc., the valuations of which are entirely dependent on the amount of gold to be obtained for them. By combining all these items we arrive at the astonishing result, that each sovereign coined represents more than twenty sovereigns of value or debt, all waiting to be exchanged for or settled by that one sovereign.

As long as those who have a call on more gold than actually exists, refrain from demanding payment, so long the fabric of credit can continue mounting upwards, but should the day ever come when a "corner" or monopoly in gold can be engineered, the man who has the £20 worth of debt or value will find, no doubt to his chagrin, that he can get no more gold for it than the one sovereign which by its mere existence, has rendered it possible to create that debt or value.

These two forces, then, counteract each other without cessation to keep the balance even, and bankers watch them very closely to take advantage of every fluctuation, and not be caught in any of the ever present pitfalls that beset the unwary financier.

For this very reason, the most thoughtful of the directors of joint stock banks favour amalgamations. By increasing the area and scope of each business they call to their aid the great principle of the law of averages, so that a calamitous run which could easily ruin a single banking house, would have scarcely any effect whatsoever

on the same concern if it were one of a hundred similar banking houses amalgamated. Expenses of management, too, decrease proportionately with each amalgamation, and the added strength of the concern as a whole naturally attracts more business. Nearly every month one or other of the smaller banks is bought up by one of the giant concerns, and the attainment of that stage when the foremost amalgamation will be strong enough, and have a "call" on enough gold, to practically dictate to the money market, can only be a question of time. Meanwhile the joint stock banks could be placed in a position to exercise their latent strength if a Joint Committee were established with power to fix the maximum deposit rate and the minimum discount rate for all the parties concerned. If one might be permitted to offer a suggestion regarding this subject, it would be that this Joint Committee should consist of the managing directors or chairman of each of the following banks, and with the number of votes stated :—

Banks	Total funds in Millions Sterling about	Votes
Lloyds	57	11
National Provincial	50	10
London and County	50	10
London City and Midland	45	9
Barclay and Company	37	7
London and Westminster	31	6
Parr's	30	6
Capital and Counties	25	5
Joint Stock	21	4
Union of London	20	4

Banks	Total Funds in Millions Sterling about	Votes
Manchester and District ...	20	4
Glyn, Mills and Company ...	17	3
National (say)	15	3
Williams Deacon	15	3
London and South Western	13	2
London and Provincial ...	12	2
Birkbeck	10	2
Coutts and Co.	9	1
Baring Bros., Ltd.	9	1
Metropolitan	8	1
Alexanders	8	1
Prescott, Dimsdale & Co. ...	5	1
Smith, Payne and Smiths ...	5	1

To complete the composition of this tentative Joint Committee there would be a secretary and, if possible, the chief cashier of the Bank of England, but it is not at all likely that the Bank of England would agree to be bound by the majority of votes, though the acceptance of this binding would necessarily have to be a condition of membership. The votes, if according to banking funds, might suitably be fixed at one vote for each £5,000,000.

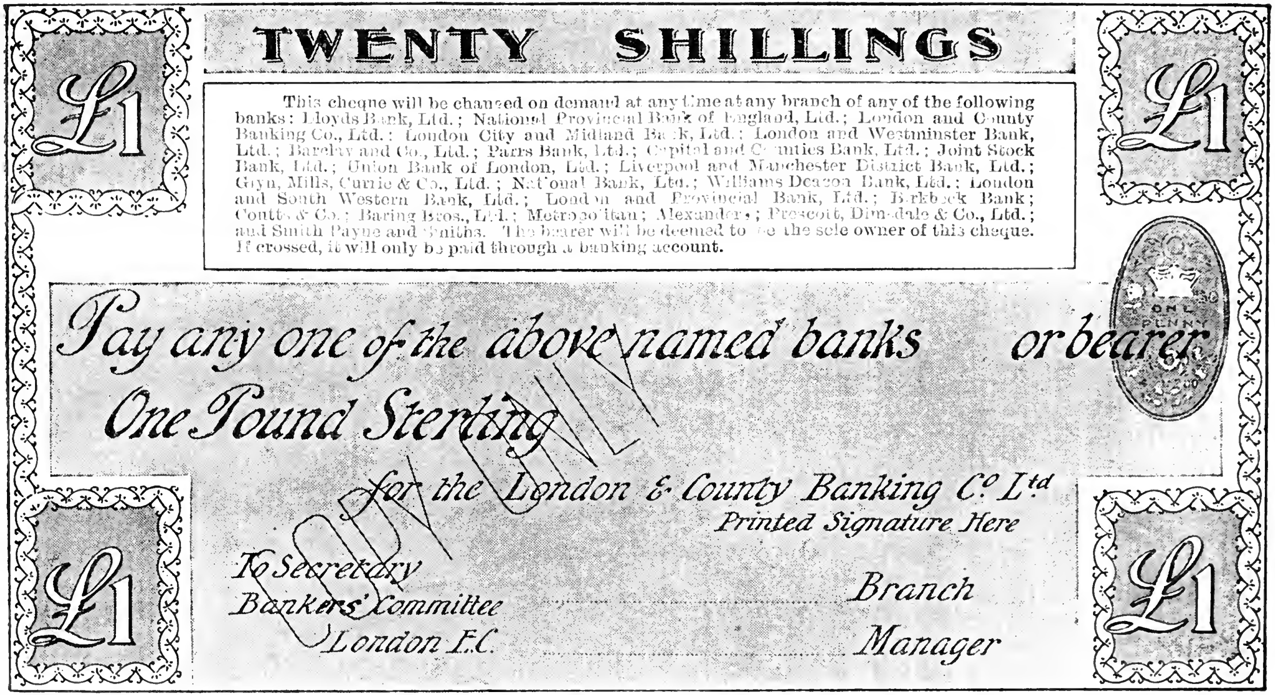
This parliament of bankers would soon regulate the competition which now gives rise to such complaints as those of Mr. Warren, in his "How to deal with your Banker" and of other writers on this subject, besides acting as a steadying influence on rates of discount, deposit and exchange. In banking, as in everything else, there are wrongs to be righted, and rights to safeguard. There are inequalities that ought to be abolished, and there are

labour-saving systems that should be extended. A conclave of bankers, as suggested above, would bring to the front whatever advantage in working peculiar to itself any one bank might have over the others, and thus be enabled to render valuable general assistance.

The secretary would place before each meeting of the Committee a digest of the world's business, properly analysed, and would be able to circulate among the members many exact details of every kind at the meetings, which it is hardly possible to obtain for publication.

By this means a system of certified cheques for remittance would become practicable. These cheques could be drawn on the secretary of the Bankers' Committee, and could be bought and sold at their face value by every branch of each subscribing bank. This would relieve the post office of extra pressure on the postal order department, and would be a real convenience to the public. Each bank would supply its branches with cheque forms, made out for various sums, say 5s., 10s., 15s., 20s., 30s., £2, £3, £4, and with the name of the issuing bank printed in.

On the opposite page is the suggestion for the 20s. cheque, supposing it to be issued by the London and County Bank.



£1 £1

TWENTY SHILLINGS

This cheque will be changed on demand at any time at any branch of any of the following banks: Lloyds Bank, Ltd.; National Provincial Bank of England, Ltd.; London and County Banking Co., Ltd.; London City and Midland Bank, Ltd.; London and Westminster Bank, Ltd.; Barclay and Co., Ltd.; Parrs Bank, Ltd.; Capital and Counties Bank, Ltd.; Joint Stock Bank, Ltd.; Union Bank of London, Ltd.; Liverpool and Manchester District Bank, Ltd.; Glyn, Mills, Currie & Co., Ltd.; National Bank, Ltd.; Williams Deacon Bank, Ltd.; London and South Western Bank, Ltd.; London and Provincial Bank, Ltd.; Birkbeck Bank; Coutts & Co.; Baring Bros., Ltd.; Metropolitan; Alexanders; Prescott, Dimsdale & Co., Ltd.; and Smith Payne and Smiths. The bearer will be deemed to be the sole owner of this cheque. If crossed, it will only be paid through a banking account.

ONE PENNY

Pay any one of the above named banks or bearer

One Pound Sterling

COPY ONLY

for the London & County Banking Co. Ltd

Printed Signature Here

To Secretary
Bankers' Committee
London E.C.

Branch

Manager

£1 £1

Printed upon good paper the cheques could be bought and sold again and again before being presented for payment. When finally presented to the secretary of the Bankers' Committee for payment, he would pay the cheques by drafts on the various banks which had issued them. The amount each bank would be allowed to issue would be strictly limited, and the average life of each cheque, before becoming so worn that it would have to be presented for payment, would be about a year. This plan, no doubt, would involve a great deal of extra book-keeping on the part of the banks, but the great convenience it would be to the public would not only make it a graceful act for such extra work to be undertaken, but also tend towards an increase in business.

Again, a general bankers' committee could obtain a knowledge of, and take steps to thwart, the plans of those whose ambition it is to force a "corner" in gold. Ever since the late Jay Gould forced his gold "corner" by changing his property into money and then suddenly removing it in gold coin from the banks, ever since the panic and losses to others which he caused, and the huge fortune he acquired for himself, it has been the dream of the would-be "Napoleons of Finance" to take the world by the throat, in like manner. Even now it is rumoured that plans are being matured between six American and English millionaires to withdraw a large portion of the world's gold at the very time a certain railway company

is bound to pay off a large obligation. As these six together are reputed to be worth over £500,000,000, and the coined gold in the whole world only stands at £790,000,000, it is only necessary for them to withdraw their own wealth in gold coin and lock it up in a safe deposit vault, in order to practically force the railway into liquidation, when they hope to acquire it cheaply.

Such at least is the programme, but it is impossible to foretell whether or not any attempt will be made to carry it out. It is to be hoped that the publicity given to the matter will cause the plan to be abandoned, but in any case there would undoubtedly have been such jealousies cropping up among the conspirators, if they may be called so, as would have prevented them from doing any great damage.

Time alone will show whether it would be wise for an individual to draw out his savings in gold before such plans materialise so as not to be caught in the "squeeze," should there be one, and also so as to be able to take advantage of the lower prices in the stock markets in case of such an event.

Nowadays the public generally are fairly keen operators. They know pretty well when to invest and when to sell, and as there are always operators to speculate on the fall in price as well as for the rise, so there are operators to speculate on the increase of the relative value of gold over other property as well as for

the decrease. Any clique of millionaires would therefore find the public operating against them, and in all probability the public would win, in which case another step towards averaging the world's wealth would have been taken.

The interest of the banks is on the side of the public. If all the money were in the hands of millionaires the occupation and profit of the banker would be gone. He makes his living by handling the people's money, and it is obviously to his interest that the people should not lose that money. It will thus be apparent that the committee could do good work by promoting an understanding on this subject between the different bankers.

The committee would then have a much broader scope than the present arrangement affords, and considerable help towards harmony and progress would undoubtedly be the result.

CHAPTER IX.

BANKING CUSTOMS.

Many of the rules adopted by bankers for protection in the conduct of their business appear to most customers as savouring of "red tape."

A cheque returned with the answer "endorsement irregular" which was made payable to "Miss Smith" and was signed on the back "Miss Smith" has often irritated both the payee and the drawer. A moment's thought however, will show that the principle involved is absolutely essential, if this branch of banking is to be carried on at all. A cheque "to order" is supposed to render payment to the wrong person impossible unless a forgery has been committed. Now the phrase "Miss Smith" is, in law, not a signature but a memorandum or recital of a name, the mere copying of which need not involve a forgery because in its form it carries notice that it is not intended for a signature. Even "M. Smith" is not a perfect endorsement. The only proper one would

be "Mary Smith" (spinster). If a cheque be payable to "Mr. Smith," it must not be endorsed "Mr. Smith" for the same reason as before. "M. Smith" (unless a usual business signature) is in this case also imperfect, the ideal endorsement being the name in full.

Although customers are sometimes apt to think there is something complicated or mysterious about the banking business, this is in fact most decidedly not the case. On the contrary, it is almost the only calling in which "business secrets" are impossible. In no other business do the customers know the precise cost price of the commodity sold and in no other business do they appear sometimes as suppliers and sometimes as consumers. Your furniture dealer does not tell you what he paid for the drawing-room suite for which he charges you thirty guineas, but your banker is content to inform you that he will charge you for a loan just double the interest he allows for deposits, or whatever the case may be. He is also pleased that the public should know all about his funds and how they are invested, and the natural conclusion to be drawn from these facts is that the secret of successful banking consists in having no secrets whatsoever.

Bankers "trust" nobody. Men who could easily obtain credit for thousands in their trade can seldom obtain, on their own signature alone, a single pennyworth of credit from a bank.

The banks themselves do not even try to borrow in the money market without depositing adequate security.

Sometimes the weekly statement of the Bank of England shows that the Head Institution itself has given Government bonds as security for money it has been able to obtain from the market at a low rate of interest.

The moral of all this is that no private person, even if his credit be as good as that of the Bank of England, need feel insulted at being asked to amply secure any advance or overdraft.

Advertising for business purposes is quite the proper course for the ordinary business man to adopt; newspapers can do such a man a vast amount of good by allowing him the use of their huge circulations. But a bank that advertises apparently wishes the public to believe either that there is a large enough profit on its business to pay for the advertising necessary to obtain that business; or else, that the advertising is being paid for out of money that would otherwise go to swell the reserves of the bank and, what should practically amount to the same thing, the wealth of the bank's proprietors. Some newspapers wield an enormous power. Their Stock Exchange news alone can be put in such a form as to continually influence prices in the market. But, in spite of absurd rumours to the contrary, it would be ridiculous for any banker to imagine for one moment that his advertisement will influence the editorial columns in his favour.

Papers whose influence would be worth anything cannot afford to accept a bribe in any shape whatever, and if an advertisement of a bank is being paid for with the idea that the newspaper in question will deal any more gently with that bank when it becomes no longer worthy of confidence, the money spent on advertisement might, looking at it from a practical point of view, as well be thrown into the sea.

Bank managers and clerks are generally regarded with envy by many less favoured classes on account of the fact that the doors of a bank usually close at four. This envy is not always well founded, as the work often keeps the said managers and clerks till very much later than that hour, but the prompt closing at four and the strict observance of holidays is a custom of the banks which is one indication of their independence and power. Any other business would be fatally injured by such a course. Even in the hours during which their doors are open, banks do not seem so anxious to do business as tradesmen are. They manage, however, to get as much business as possible without seeming anxious for it. This is the custom of bankers and it is not one that any one can find much fault with, except that it sometimes puts the applicant for a drawing account or a secured loan in the position of appearing to ask a favour, whereas in reality it is the bank which receives the favour in being offered the refusal of the business.

Customers can generally borrow money from a bank whenever they wish to, provided they have bonds or other quoted investment stocks to deposit against such loans. If they have trade bills to discount, however, the negotiations are upon quite a different basis. It is a mistake to suppose that a bill, no matter how large a house it may have been accepted by, will as readily be accepted for security as are investment stocks. In the first place, except for very good customers, bankers declined altogether to open discount accounts. Secondly, the amount that any customer may discount is strictly limited. And in the third place, the customer is required to sign an agreement that a proportion of the amount advanced shall remain on deposit as further security. It also goes without saying that careful enquiries are made about every bill offered for discount, and it is not too much to add, that of all the bills offered to bankers, a large majority are absolutely and irrevocably rejected.

The longer a man has a discount account, the greater latitude his banker will allow him, provided that all his discounted bills prove to be regularly met. Such a man would not be acting wisely in changing his account to another bank without exceptionally good reasons. He has proved profitable to one bank, and if he removed his account, he would lose any benefit the appreciation of that fact on the part of the bank would be to him.

Public company directors in general do not treat their shareholders with anything like the same consideration as that accorded by the managers of a private company to their principals, the partners of the firm. Joint-stock bank directors are like other directors in this respect, and rightly so, as long as the dividends continue to satisfactorily increase. It is obviously impossible to lay before a general meeting a series of minute particulars regarding the loans conceded to customers. Loans and their value depend altogether upon the details which, in the language of bank circulars, "the officers of the bank are pledged not to divulge."

Now, the item called "loans" is the only really important item in a bank's balance sheet. The "paid-up capital," "reserve" and "deposits" are important items only because they show, after deducting "cash" and "investments," what proportion of the funds loaned are supplied respectively by the proprietors and by the depositing public. Then, again, the "profit and loss" item arises entirely from the manipulation of the "loans" account. If a very large percentage of the loans are arbitrarily "taken into stock" as "good," the profit will appear greater and the dividends will be larger than if a smaller percentage is so taken. It is impossible for any one to know how large a proportion ought to be so taken, or even to guess at it, without a knowledge of the details mentioned above. No one

outside the management of a bank can even know what proportion actually has been disposed of in this manner in that particular bank, as this proportion is never disclosed in a banker's balance sheet. It follows that any attempt to compare the proportionate profits of different banks, or the intrinsic value of their shares, is foolish and misleading.

If then, a bank's balance sheet tells the shareholders nothing about the way in which the profits are estimated, and does not give the only information which would be of real interest to them, why is it shown them at all? The only explanation to be offered is that it is published to reassure the general public on the question of the bank's solvency.

Banks are made the victims of numerous swindlers. They are the principal "game" for forgers, embezzlers, thieves and robbers to attack. They stand more than any other business houses do, for law and honour as against lawlessness and fraud. Many of their customs reflect this fact, and are evidence of the vigilance which has to be exercised in order to protect the wealth of the public from loss.

CHAPTER X.

GOLD RESERVE.

The Bank of England as a corporation has undertaken the duty of guarding the Nation's gold reserve. It is not necessarily a profitable duty, but the issue of notes against it makes it so in this case, because it so happens that a small proportion of notes are lost and are never claimed. These unclaimed notes, though but a minute percentage of the whole, can yet be counted upon to pay more than the actual cost of storing and protecting the reserve of gold, against which all the notes are issued. For the purpose of considering the gold reserve no account need be taken of the notes which the Bank issues against the loan to the Government, or of the huge advertisement the right of issuing notes gives to the banking department of that corporation. Both of these considerations are immensely important to the Bank's stockholders, but do not affect these weighty facts: that the gold reserve is held against notes, and that these notes "finance" that reserve.

If the amount of notes in circulation in this country expanded in the same proportion to the turnover of general business as it does on the continent, there would be no gold reserve problem, but notes are not now called for to settle business transactions here, except in a very small degree. The bulk of transactions are settled by transferring credit at banks from one name to another. Behind this credit at the banks, and behind the amount deposited in savings banks, there is no reserve whatever, except a small amount of gold and Bank of England notes held by these banks.

Every bank, except the Bank of England, owns a certain amount of credit in some other bank, generally in the banking department of the Bank of England; but this credit is not a reserve, except to such an extent as that bank or banking department holds coin or notes in proportion to the whole amount of credit outstanding against them.

We can therefore arrive at the following approximate figures:—

Owing by P.O. Savings Bank deposits	£140,000,000	Ultimate Reserve		Nil.
,, 20 Joint Stock Banks	£400,000,000	,,	,,	£30,000,000
,, by other Banks	£460,000,000	,,	,,	£20,000,000
	£1,000,000,000			£50,000,000

Of this gold reserve of £50,000,000, about £35,000,000 is at the Bank of England, the remainder being kept as till-money in various banks. It is absolutely the only ultimate reserve and liquid asset

with which to pay the £1,000,000,000, due at a moment's notice from English banks. Is this adequate? Would it be adequate even in times of comparative peace? To answer that question let us consider the matter as it stands.

London is, to some extent, still the world's banker. If its customers were to draw only 5 per cent. of the amount payable on demand, and not send the money back to London by some direct or indirect method, the City would, obviously, be "cleared out" of gold. It is possible that while one part of the world was drawing money, another part would be depositing. This has often occurred, London receiving from South Africa, perhaps, a large amount just in time to prevent a shortage that would otherwise be caused by a sudden drain to America. But it is a great question whether these coincidences can always be relied upon to occur. If not, the small margin afforded by a 5 per cent. "ultimate reserve," would not be at all adequate to meet all the demands that might be made. In that case, and it will be conceded that the occurrence of such an eventuality is quite feasible, some investments would have to be sold to foreign purchasers, and in the event of such compulsory sale, or of a compulsory discounting abroad of London bills, a large percentage of loss might accrue. Many bankers have estimated the probable amount of such loss with a view of seeing

how it would compare with the cost of keeping an adequate gold reserve in the meantime; but it is indeed a difficult question to decide unless one is able to gauge the consequences of a general default, and the percentage of risk of such default which may be involved in the keeping of only a 5 per cent. reserve.

It has been suggested that a law should be passed to compel every bank to keep, in notes or coin, at least 15 per cent. of the amount payable on demand. To some extent such legislation would be beneficial even to the banks themselves. It would not prevent loss, however, but rather the reverse, if the banks at any time found that so much was being withdrawn that sacrifices had to be made to keep up the coin and notes to the figure thus prescribed. Moreover, a law to regulate one business is a step towards paternal and socialistic legislation for all businesses, and even those who believe that that sort of legislation is the ultimate goal of statesmanship, would not advocate such a sudden stride in an unknown direction as to attempt to dictate to a man in what particular form he shall keep his wealth.

Another suggestion which has been made is that a Government auditor should be appointed, with power to visit any bank at any time and examine its books, vouchers, and cash, and make a report to Parliament, censuring any institution which he might find not keeping a proper proportion between its earning funds

and those of its funds lying dormant as reserve. In so far as this idea is suggested by the practical working of Government supervision over the National banks of the United States, it can hardly be taken exception to on the grounds of impracticability. But here, again, the legislation necessary for the institution of such an office would involve the great political question of the rights of property, and might prove impossible of satisfactory settlement. If an officer, supremely fitted for that capacity, could be found and kept in office, and if the banks could be given some legal concession to induce them to consent to have the management of their property thus interfered with, this suggestion might then be carried out.

Failing the realization of either of these very clever schemes, what is to be done? Will the City again require a severe lesson, like the panic of 1866, in order to teach the banks their duty, or will some theorist propound a new scheme of extraordinary legislation to regulate reserves, one which appeals at once to the dignity and the common sense of the bank directors? Leading financiers at present give it as their opinion that neither the severe lesson nor the stringent measure will be necessary.

Every day is a lesson. Every day the weakest are being made to feel their position more accurately and some of the strongest are brought forcibly to realize that

additional strength would afford them more than proportionate benefits.

The care or rather fear of danger has been and is, acting as a safeguard, and is proving beneficial in its results. It is the natural remedy against the danger which it opposes. No other antidote for the existing state of affairs is necessary, than that the agitation shall be kept going, and that those banks which err in the matter of reserve shall find, as they are finding now, that a low coin reserve prevents them from utilizing to the fullest extent the advantage of a dear money period, notably in the matter of increasing investments at a low level.

Writers on this subject often neglect the "property" aspect of the case. Money is only gold, and would be of very little use unless it were exchangeable for other property. On the other hand, debts can only be settled with gold, and not by means of any other property. Consequently, the whole of financial and commercial business enterprise or speculation is one gigantic duel between gold on the one side and all other property on the other.

When gold is dear it means that a larger average proportion of other property is required in exchange for it. "Higher prices" for property, labour and commodities is only another way of saying that gold is cheaper.

When the prices for provisions, labour, etc., of several hundred years ago are compared with the present prices it will be seen that the tendency of gold is to become ever cheaper by comparison. Thus a positive loss of labour-buying value takes place on a store of gold kept in a vault for any considerable time. The actual intrinsic price per cent. for the use of gold, taken apart from all payment for risk, convenience, or political necessity, is the exact percentage of loss shown in the buying power of that gold in the labour and other markets during one year. That is the amount actually lost by keeping an idle store of gold, and in some years this sum has been considerably greater than in others.

To blame the banks for protecting their shareholders against this loss, without at the same time recognizing that it is their duty to hold the balance even between the two extremes, either of which would mean loss, is manifestly unfair. The more or less severe experience of years will gradually teach banks the right proportion of gold to keep in reserve, without dangerous risks on the one hand or dangerous losses on the other. But in order to uphold our gold reserve it is necessary to keep up the agitation in favour of it. Without this constant agitation and "panic" shouting, a real danger might easily arise; a danger so great in itself that the whole fabric of commercial confidence would thereby

be brought to tremble in the balance, and it would prove impossible to foretell how calamitous a result such a condition of affairs in the money market might lead to.

CHAPTER XI.

SAVINGS BANKS.

It is an old axiom, and one that undoubtedly contains much truth, that he who lives within his income is happy, and if there were no fear of that income diminishing, nor any ambition on his part to live at a greater expense, there would be no incentive to that man to save.

Many people are so constituted that they do not seem able to save a single farthing of their income. They often get in arrears in their money matters, but somehow or other they never seem able to make any headway. There are so many inducements to spend money that, by one means or another, they go through life without ever having any capital saved. This class is, in all probability, still in the majority, although the number of those who save money is constantly on the increase. To this inability to save and to take care of money, may certainly be traced the major portion of

the worries that beset mankind. A man who never has anything cannot safely be trusted. He receives the sympathy, but hardly the respect, of the community. He at first loses valuable sleep, while thinking and dreaming of his lack of funds and of his debts; and afterwards when he ceases to worry about how his liabilities shall be honoured, he loses also his self-respect. This sorry plight is no more than that which every victim of the non-saving habit may confidently look forward to.

To save a little out of a small income is as important as it is to save more out of a larger one. The difference between a success and a failure in life lies much in the ability or inability to save small amounts out of small incomes. The farm labourer may be as good a farmer as the owner of the farm, but his nature compels him to spend all he gets (which, true enough, is but little), and it is that difference in his nature which causes him still to be a servant instead of a master. In every walk of life superior men find themselves subordinate to their intellectual inferiors, simply because they are victims of a habit which the others have escaped, namely, the habit of spending all they get.

There are various ways of saving, but not one of them is of any use to the person whose nature is deficient of the "saving" instinct. For that unfortunate

individual, there is little hope of worldly prosperity, no matter how brilliant his intellect or attainments may be.

People have various objects in life. Some wish to leave behind them a record which will win praise and respect from future generations. Others try to create a sensation, or win ephemeral fame by extraordinary writings or actions. But no one, whatever his object in life may be, and especially if his object is to enrich himself so that he may win independence, would wish to live without a monetary profit. A man may earn and spend thousands of pounds in a year, but the sum so made and spent is really his turnover. His profit for that year of his life is only what he manages to save out of that sum. It may therefore be taken as a general truism that a man who saves nothing lives a profitless existence, at any rate from a worldly point of view.

The ideal man has the saving instinct strongly developed. He saves a little, even when his earnings are small. He keeps out of debt. His savings gradually increase until he is able to buy a home. After that, they continue increasing until he can buy a business or an interest in a business, which will enable him to turn his efforts and knowledge to better account.

Where shall he keep his gradually accumulating money in the meantime? The answer is: Where it WILL keep. If he lends it to a friend, sends it to an advertising deposit bank, promising big rates of interest,

or buys mining shares with it, the chances are it will be lost.

The tax-payers of England support a gigantic Savings Bank in connection with the Post Office, and there is no reason why those who are saving should not take advantage of the generosity shown in running that Savings Bank at a loss. The rule to be followed is to deposit in the Post Office Savings Bank when Consols are above parity, and to draw out and buy Consols with the money when these have depressed below that point.

For instance, a man who has invested £200 in Consols takes note of the fact that these securities are standing at say 111 per cent. in the market. At this price he is no longer receiving as much as 2½ per cent. on his capital as shown by that market value, and, in consequence, he sells his stock and deposits the proceeds in the Post Office Savings Bank, playing a waiting game. After some time he finds that the market value of Government Consols has decreased to 95 per cent., at which price he can buy them again to yield considerably more than the 2½ per cent. which the Post Office pays him. As the security for the money is exactly the same in either case, he is fully justified in making the change, which cannot but be of benefit to him.

This rule need never be varied. It is true that it is taking full advantage of the facilities so readily offered by the Government, but these facilities no doubt are

offered for the encouragement of thrift, which an adherence to this rule will still further assist.

For those who do not like the Post Office Savings Bank, with its delays and peculiar rules, ordinary banks have a deposit system. The interest paid by these concerns, however, does not average as much as 2½ per cent., although it increases beyond this figure when the bank rate is high. The small saver should avoid subscribing to new issues of industrial or mining shares, as the majority of these either depreciate in value or fail entirely.

Without doubt the Post Office Savings Bank ought and could be managed so as to save the present annual loss. As at present constituted it must of necessity continue to be unprofitable; for its rule is to invest its funds in Consols, no matter what the market price may be. Now, the further the market price of Consols gets above par, the more likely are the people to deposit their savings in the Savings Bank, rather than buy Consols or other investments, as the yield on such stocks then is reduced below the 2½ per cent. the Savings Bank allows. This increase of funds has then to be invested by the Savings Bank in Consols at the higher figure.

When, by reason of wars, fresh issues of Consols, or other causes, the price of the latter sink below par, people will naturally draw out their savings to

buy Consols, thus compelling the Savings Bank to realize its holding of Government stocks at the low figures.

This realization often causes the price to go still lower, on which more depositors draw out their money, and, as a natural consequence, more stock has to be sold.

This process is a very expensive one to the Government, and will very probably continue growing more so until the proper remedy is adopted. That remedy is one which only an exceptionally strong man would undertake the responsibility of putting into execution, but once in operation it would prove a great steadying force in the financial world, and would at the same time solve the National gold reserve problem. Instead of the rule that all funds shall immediately be invested in Consols, a working principle ought to be adopted that the higher the market price of Consols, the greater the proportion of the Savings Bank funds which should be kept in gold in the vaults.

For instance, it will be obvious to the reader that if the following table were to be adopted, the automatic withdrawing of gold from the market and storing it in vaults would regulate the rising of the market price, and the automatic releasing of the gold when the market price began to fall would check the falling of that price.

When Consols are quoted at		then, of the funds of the Savings Bank		shall be invested in Consols.
are quoted at	90	the Savings Bank	99%	in Consols.
,,	91	,,	98	,,
,,	92	,,	97	,,
,,	93	,,	95	,,
,,	94	,,	93	,,
,,	95	,,	91	,,
,,	96	,,	88	,,
,,	97	,,	85	,,
,,	98	,,	82	,,
,,	99	,,	79	,,
,,	100	,,	75	,,
,,	101	,,	70	,,
,,	102	,,	65	,,
,,	103	,,	60	,,
,,	104	,,	65	,,
,,	105	,,	50	,,
,,	106	,,	44	,,
,,	107	,,	38	,,
,,	108	,,	33	,,
,,	109	,,	26	,,
,,	110	,,	20	,,
,,	111	,,	10	,,
,,	112	,,	Nil	,,

By this rule, profit would accrue to the Savings Bank at every change in the market price of Consols, and such fluctuations would at the same time be discouraged. The present rule not only encourages the alternating high and low prices, but causes the Savings Bank to lose by every such fluctuation.

Gamblers and speculators would, no doubt, object to the adoption of such a rule, as they now make the money lost by the Savings Bank on the fluctuations in the price of stock.

Others, foreseeing that the Savings Bank would gain absolute control of the money market by having power to accumulate an immense store of gold, would object in their turn. But a conclusive reply to all such objections would be that if the Savings Bank is not fit to be entrusted with that power, it is not fit to be the custodian of the savings of the people of England.